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SUBJECT: KOREAN AUTO MARKET NEW YEAR'S UPDATE

¶1. (SBU) SUMMARY: This report highlights recent events and perspectives in the Korean automobile market. The increasing globalization of the ROK's automobile market - both in the influx of foreign cars in Korea and the expansion of Korea automobile production abroad - is particularly noteworthy. End summary.

Toyota Ranks Second Among Imported Cars in November

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¶2. (SBU) After the introduction of the Toyota brand to the local market in October, the Camry, priced at 34.9 million Won (about \$29,890), became one of the top-selling imported car models in November. Toyota surpassed competitors like BMW and Volkswagen, as well as other Japanese automakers. Nissan Korea recently released the new Altima, lowering its price to 33 million Won (about \$28,260) to compete with Toyota. In October, Honda also sold the Accord at a lowered price of 40.9 million won (about \$35,000). The top-selling brand in the imported car market is Mercedes-Benz.

Imported Car Market will Flourish in 2010, Says KAIDA

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¶3. (SBU) The Korea Automobile Importers and Distributors Association (KAIDA) reported there will be an approximately 20 percent increase in the number of initially registered imported vehicles in 2010, amounting to about 74,000 total. Despite a slight downturn in the growth of the imported car market in Korea due to the global economic slowdown, KAIDA believes the market will recover next year. The import auto industry will introduce 40 new models including clean-diesel and hybrid cars into the Korean market, as well as reinforce promotion to expand market share and induce popularization of imported cars. KAIDA reports that the industry is striving to secure inventory before the coming year to prepare for a boost in demand. Moreover, Chinese auto manufacturer Jinbei-Auto will enter the Korean market for the first time by exporting vans and mini-vans. Starting from February 2010, Jinbei will accept pre-contract orders through Korean dealerships.

Hyundai Motors Overseas Production and Sales Statistics

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¶4. (SBU) Hyundai's sales totals for 2009 up to November amounted to 401,267 cars in the U.S. market, up 6.2 percent from last year. In spite of a contraction in global car markets, Hyundai's overseas sales rose dramatically in India and China. The two countries, emerging as tremendous car markets, have also become primary centers of production. Outputs in each country exceeded 0.5 million, helping Hyundai Motors to hit record highs in overseas production. The amount of production in China represents a 90.5 percent increase from the previous year. As demand is rising continuously in these markets, Hyundai is reportedly considering increasing foreign production.

15. (SBU) In contrast to soaring sales in China and India, exports to 'Other European Regions' including Russia and some of the East European countries, dropped to 88,547 cars, down 77 percent from last year. The precipitous drop may be due to a slowing Russian economy and low domestic consumption.

#### Hyundai-Kia Automotive Group's Hybrid Sales Slumping

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16. (SBU) Avante and Forte Hybrid, Hyundai-Kia Motors' Hybrid models, were released last July but sales have fallen below expectations. The 2009 target sales for Avante and Forte Hybrid were 7,500 and 2,000 respectively, but actual sales have amounted to only 4,665 and 1,094. Meanwhile, industry records reflect that sales of the Toyota Prius, a gas-electric hybrid model, accounted for more than 23 percent of total sales of Toyota Korea. Hyundai Group hybrid cars are based on LPG (Liquefied Petroleum Gas), which is less fuel-efficient than the gasoline-electric-based Prius, a point not lost on consumers. "Without additional subsidy from the government, it will be difficult for Hyundai-Kia to gain competitiveness with Japanese hybrids," noted Kim Ki-chan, a business professor at Catholic University of Seoul.

#### The Future of Ssangyong Motors

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17. (SBU) After Seoul Central District Court approved Ssangyong Motors' restructuring plan this month, there is renewed optimism on the company's future, although concerns still exist. As required, Ssangyong will complete its debt restructuring plan within a month and will select a lead manager to embark on an M&A strategy by the end of 2010, in order to obtain long-term sustainability for the company. Even though creditors had once rejected the rehabilitation plan, considering the negative potential economic and social impacts of liquidation, the court concluded the remaining value of the firm will be greater than its liquidation value, and reversed the creditors' decision.

18. (SBU) Despite a contentious 77-day strike, Ssangyong sold 29,887 cars this year, actually exceeding this year's target of 29,286. Approval of the rehabilitation plan should further positively affect the firm, enabling capital inflows from the financial sector. However, problems may lie ahead in 2010. According to the Korean newspaper Dong-A Ilbo, in order to achieve a truly successful revival, Ssangyong needs to develop new models, and select an adequate M&A partner. Observers note that Ssangyong's main products are SUVs, which may make it difficult to find a willing M&A partner, and that Ssangyong has limited capital for developing new cars.

STEPHENS